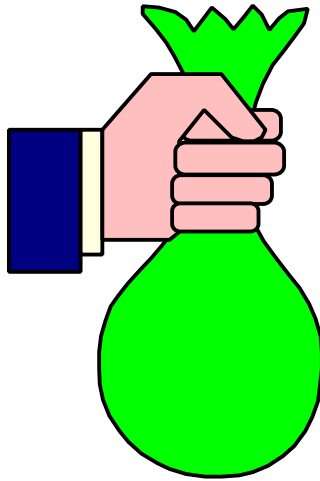


## ***MONEY ISSUES:***



What's my real cost?

How much do I charge?

Is revenue generated profit? program income? unrestricted?

And now what do I do with it?

*just to name a few....*

There are obviously many issues attached to the general topic of money. Some of the questions that you will need to ask yourself include:

- + How do I cost out the service and then determine a fee structure?
- + How much can I charge above my cost?
- + How will the final fee hold up to market comparisons and what is the VALUE of the service (actual and perceived) - from my own organization's perspective AND from my customers viewpoint?
- + Should I have a sliding scale for fees based on ability to pay? (Research has shown that this method is rarely used.)
- + Should I look at alternative pricing methods (e.g., offer service "packages" at one price and different prices for unbundled services, or offer single prices with "value-added" options and add-ons)?
- + Should I develop a fixed price contracting method per unit of service? Set prices based on time? Set prices based on performance? (see attachment A for examples of fee structures)
- + Who is the "paying customer"? The employer? The job seeker? Am I being reimbursed via a third-party organization like the State Welfare office, JTPA, vocational rehabilitation, etc.? (whose paying may change your price structure, e.g., if you want to apply quantity discounts, or discounted prices for public, non-profit organizations)
- + Am I set up to accept cash, personal checks or credit cards from job seeker customers? Do I set up accounts for repeat employer customers? What if they don't pay?
- + What kinds of fiscal tracking systems do I need to have in place? (if you've received grants from various sources and had to allocate costs across those grants before, chances are you have a system already in place to set up a "fee-for-service" grant account!)
- + Is excess revenue generated "profit"? How might this affect me as a legal non-profit corporation?
- + Is excess revenue "program income" or "unrestricted revenue"?
- + What can I do with the excess revenue?

This paper will touch on a few of these questions.. but you will still need to discuss these in greater detail with your co-workers to assess the organization-specific implications.

## **COSTING OUT FEE-BASED SERVICES**

If an agency is going to charge fees for any of its services, it must have reliable cost information to guide decision making and to properly account for the activities. It is necessary to determine the **full and true** cost of a service before you will be able to establish an appropriate price that you can charge for providing that service. Full cost information is also needed to determine the amount of net program income / revenue that you have earned.

The **full and true cost of a service** is the sum of all direct costs incurred in providing that service, plus a proportionate share of all administrative overhead and indirect costs that support your agency's overall operations. If you fail to recognize and include the non-direct costs in your computations, you will greatly underestimate the full cost of providing the service, and in some instances you may even incur unallowable costs. Look at:

**1. What your direct costs are, such as:**

- + Staff costs [example: (hourly rate + fringe) x (delivery time + prep time - let's say 50% of delivery time) x # of staff ]
- + materials [printed items, tests, etc.]

**2. What your indirect costs are:**

- + do you have a standard administrative overhead % charge?
- + does your parent agency and/or affiliate organizations have an overhead charge?
- + do you have a federally approved indirect cost rate which could be applied to the direct cost of service?

Example: If the direct wage and fringe benefit costs of providing case management services is \$20 per hour, and the agency has an approved indirect cost rate of 30% as applied to direct wage and benefit costs, the full cost of providing one hour of case management services would be the sum of \$20 in direct costs and \$6 ( $\$20 \times 30\%$ ) in indirect costs, totaling \$26. (remember, this is the cost, not necessarily the fee charged!)

**Caution:** There is a potential for “JTPA disallowed costs” if you do not include all relevant costs when determining the full cost of a service. In other words, a cost cannot be charged to JTPA if that cost supports an activity that is not associated with that grant.

Example: If an agency is providing case management services for a fee, and is accounting for the cost and revenue of that fee-for-service activity outside of their JTPA grant, none of the direct and indirect costs of that activity may be charged to the JTPA grant. Using the information from the example above, the full cost of \$26 per hour (direct and indirect costs) must be charged to the fee-based activity. If the agency charges only the direct cost of \$20 to the fee-based activity and charges the indirect cost of \$6 per hour as a JTPA expense, the \$6 cost would be disallowed since it did not benefit, and therefore is not allocable to, the JTPA program.

## **DETERMINING THE FEE**

Cost information is obviously used to establish a price to be charged for the particular service. In the above examples, the agency could establish the fee knowing that its actual cost for one hour of case management services is \$26 per hour. If the agency is providing the service at cost, it would charge the equivalent of \$26 per hour. If the agency intends to earn revenue in excess of costs, then a higher rate would be charged.

Examples of one organization's approach to setting the final fee for various services are as follows:

**Workforce and Human Resource Services** ~ Human Resource Service fees are estimated as follows:

Estimated time to deliver service*	x	Hourly Rate	x	Indirect Cost Rate	x	Profit Margin 20%	=	Project Fee
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### Assessment

Fees for assessment services will include the cost of the materials as well as cost for the individuals administering the test. Each assessment will be grouped in categories determined by the number of hours needed to complete the assessment and interpretation and will be priced accordingly. The categories are:

Category A up to one hour

Category B more than one hour but less than 2 hours

Category C over two hours

Testing + interpretation time*	x	Hourly Rate	+	Cost of instrument	x	Indirect Cost Rate	x	Profit Margin 20%	=	Fee
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When assessing groups, the fee will be based on the above formula for the first individual. For each successive individual, the actual test time will not be included in the calculation, but interpretation time will be a factor.

### Training Services

Fees for training services will be based on the cost of personnel to set up the session (figured at \$65 per hour ) and costs for actual delivery of the training (based on \$85 per hour). These costs will be estimated as follows:

Set up Time*	+	Training time*	x	Hourly Rate	x	Indirect Cost Rate	x	Profit Margin 20%	=	Fee
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In addition, other costs, such as training materials, site-related costs, etc. are added on to the total project fee.

\* an additional 15% is added onto set up and delivery times to account for a margin of error when providing customers with project fee estimates. Final fees charged will correspond to the actual time required for set up and service delivery.

Our research revealed that a 15% to 20% “profit” margin was fairly typical. But there are other issues that may need to be considered before finalizing your fees, such as assessing what fees the market will bear AND what the value of the service may be to you customers.

## MARKET COMPARISONS

If the service you choose to provide is also provided by other organizations in your community, then how does the fee compare with those “going market rates”? (note: this paper itself does not attempt to address the issue of whether or not you should be competing with these organizations, suffice to say here, that *has to be a local decision...*)

If you are *significantly higher than* the market rate, then perhaps no one will buy the service! On the other hand, if you are *significantly less than* the market rate, you may find yourself being questioned about the validity of your fee. For instance, you may open yourself up to suspicions regarding the use of public funds to cross-subsidize the fee-based activity --- ***which is a definite no-no*** ~ unless the fee-based activity is a legitimate JTPA activity and you are following the appropriate restrictions related to generating program income.

Short of doing in-depth market analysis, you could simply “mystery shop” those other organizations to see what they are charging.... but make sure the comparison is fair and the services are indeed alike.

Most organizations in our research study did not view themselves as being in head-to-head competition with any private or public organizations because they either:

- + chose not to deliver certain services for a fee, *OR*
- + they focused on an “untapped market niche” within a grouping of like services (e.g., focused on a customer base not being served by the other organizations like outplacement services for entry-level employees and not upper management), *OR*
- + they partnered with those organizations to deliver the services together.

Therefore, market comparisons were not valid. Instead, they conducted surveys of current customers and/or PIC Board employers to assess whether or not the fee rate seemed reasonable. This also addresses the value question: How do your customers perceive your services? And what would they be willing to pay? The research study also demonstrated that often times the customer valued the service higher than staff’s expectations ~ the actual value was higher than the perceived value held by staff!

Once you have finalized the fee rate, other considerations are:

- + does it need to be approved by your city, state, and/or governing board? and
- + should you have your accountants or auditors review your fee-setting process for its soundness?

## USING COST INFORMATION TO DETERMINE NET INCOME

Cost information is also needed to determine whether the fee-based activity generated any net income. Net income equals total revenues minus total costs. Since an agency will usually not want to incur a loss in its operation of a fee-based activity, it needs to accurately track actual costs and actual revenues in order to measure the bottom-line results.

**Caution:** If an activity does incur a net loss, that loss in many instances is not chargeable to a federal grant.

## LEGAL ISSUES: CAN YOU EVEN CHARGE FEES AND EARN EXCESS REVENUE?

Depending on the structure of your organization (e.g., public agency, non-profit organization, etc.) and your current revenue sources, you will need to consider certain legal implications and constraints:

- + Does my tax status affect my ability to charge fees?
- + Do my funding sources specify WHICH services I CANNOT charge a fee for and WHO CANNOT be charged a fee for a certain service? (e.g. with your JTPA and ES funds?)
- + As a state agency, are there state laws restricting the assessing of fees?

Regarding **TAX STATUS**, non-profit/not-for-profit organizations should check with their accountants, auditors or lawyers to determine whether you may need to modify your by-laws, charter, etc. to ensure that your fee-charging activities are allowable AND to make a determination up-front as to whether the fee-charging activities fall within your agency's overall purpose and mission.

The short answer is that "non-profits" can earn revenues and legally make a profit. One issue to think about is if the excess revenues over expenses equals TAXABLE income or not. In general, it will NOT if the excess revenue generated was related to the overall purpose of the agency which has a tax exempt status. If NOT related, then it may be subject to income taxes. Caution dictates that your decision to classify an activity as related or unrelated should not just be made based on tax legalities - so talk to your fiscal and legal staff!

Regarding **FUNDING SOURCE LAWS**, the rule of thumb for JTPA is that you cannot charge an individual a fee for placement or referral in or to a training program funded under JTPA. (Law section 141 (j)). Obviously, you cannot charge JTPA eligible individuals fees for any services they are given which are being funded with JTPA dollars (assessment, training, job placement, counseling, etc.)

For Wagner-Peyser, Employment Services, the law and regulations outline what kinds of services "MAY" be offered as part of the free, public labor exchange (see Sections 7 and 13 (b) 1) of the law and 20 CFR 652.3, 652.5 and 653.101 regulatory cites). You need to talk to your state and local ES officials to see what your state policies dictate regarding what must be provided free to the public. Further, many states have laws that govern the fee-charging activities of their State Employment Service. These other issues about state Wagner-Peyser / Employment Service agencies' ability to charge fees have been researched by the Center for Employment Security Education and Research (CESER) when they looked at the option of charging employers a fee for access to the America's Talent Bank. The questions they focused on were: Does your state legislation:

1. have authority to promulgate fees for services not funded by federal dollars?
2. state that services provided by public ES offices must be free?
3. have any fines/penalties involved with public employees found to be charging fees for services?
4. exempt you from regulatory provisions that private employment agencies are subject to? And
5. ensure that you can keep revenues to support your agency?

[See full text of ICESA/CESER research paper on fee-charging abilities of state agencies in our website's library.]

## **PROGRAM INCOME vs. UNRESTRICTED REVENUE**

To answer the question of when it is program income will depend on if the income that was received was generated by a federal grant- or subgrant-supported activity and/or earned only as a result of that grant or subgrant (e.g. JTPA) [see JTPA regulations 627.450 (a) (1)]

Net income is classified as program income when it is directly generated by a federal grant-supported activity. Different rules apply to the use of program income for different programs ~ for some programs, such as JTPA, program income may be used to provide additional grant-supported services, while other programs require that program income be used to reduce expenditures charged to the federal grant, or be returned to the federal government. Program income may not be treated as unrestricted funds. To help determine if it is program income, ask yourself:

### **Is the Revenue Generated from Federal Grant Supported Activities?**

The central question here is: what funds are being used to pay for the costs of providing the services and activities for which fees are being charged? If those costs are not being paid in any way with federal funds and are not being accounted for within the federal grant accounts, then the resulting revenue is not program income to a federal grant. Under these conditions, an agency would be able to use the revenue as unrestricted resources unless other state or local provisions would apply to your organization.

**Caution:** In order to demonstrate that the costs of the fee-based activities are not being paid for with federal funds, an agency must account for the costs and revenues in segregated accounts that are totally separate from federal funds. If federal cash is used at any time to pay for the costs, or if the costs are accounted for in any way that combines them with federal grant costs, then the federal grant is being used to support the activity and the resulting revenue is, in most instances, program income.

In JTPA, however, there are some activities that are specifically excluded from the definition of program income unless the grant agreement includes them (see JTPA regulations 627.450 and the JTPA Financial Management TAG, Chapter 5). Examples are: royalties and license fees for copyrighted materials, patents and inventions, sale of real property and equipment (which is governed by the rules on disposing of property), profits of commercial organizations, donations, and funds received for providing non-JTPA services.

Organizations that have been doing fee-for-service have developed policies around when to track income as JTPA program income and/or have developed their program totally separate from activities supported by those federal grants, so that they don't meet the program income definition.

Sample determination procedures used by one SDA for determining if an activity will be program income or not:

Determination Procedures for Employment Solutions vs. JTPA Program Services.  
Time will be charged and income will be credited to JTPA when:

- + the service provided has the primary function of certifying applicant eligibility and entering participants into JTPA programs or the JTPA information system;
- + the service is one that can be provided free of charge to a client using JTPA funds;
- + the service provided is an allowable service under JTPA and the fee for the service provided does not approximate the going market rate for similar services;
- + income is generated from: 1) the rental or real of personal property acquired with JTPA funds 2) the sale of commodities or items produced under a JTPA grant; or 3) income earned is in excess of costs under a fixed-price or a reimbursable agreement with the JTPA funding source.

If the above guidelines are not applicable, the income received and time for services provided will fall under Employment Solutions. If a question exists on the distinction between JTPA program and Employment Solutions income, the Executive Director will have the ultimate authority for determination.

## **WHAT TO DO WITH EXCESS REVENUE**

Whether or not an agency may keep the income that has been earned from fees, and what you can do with it, depends on a few different factors:

- + Was the revenue from fee-based activities directly generated by a federal grant supported activity?
- + Is the particular activity therefore included in the definition of program income?
- + Are you a state agency that, by state law, turn over excess revenues to the State?

### **When it is program income:**

If the revenue resulting from the fee-based activity is program income, then what you can do with it varies depending on:

- a) the type of agency and which OMB Circular applies to that agency, and
- b) the specific program requirements on the use of program income.

#### **a) Type of Agency and Governing OMB Circulars:**

If the agency that earns the revenue is a not-for-profit organization, it is governed by OMB Circular A-110 which permits you to retain program income while limiting its use to providing additional program services under the federal grant in which the revenues were earned.

If the agency is a state or local governmental entity, it is governed by OMB Circular A-102 which requires that program income be deducted from outlays (i.e., reduce costs) rather than be used to provide additional services. The Circular allows for program income to be used to provide



additional services under the grant only if it is specifically authorized in either the grant agreement or the Federal regulations that govern the specific program in which the revenue was earned.

**b) Specific Program Requirements:**

Some federal programs (JTPA for example), in either their regulations or grant agreements, allow all agencies (including governmental entities) to retain program income and use it to provide additional services under the federal grant. In those instances, the specific program rules supersede the OMB Circular restrictions.

An agency is never allowed to treat program income as though it were unrestricted corporate funds. Program income must be used to provide additional services that are authorized under the federal grant in which the program income was earned.

**When it is not program income**

As stated before, the organizations in the research study ~ and all were JTPA administrative entities ~ ran their fee-based services separate from their JTPA and federally-supported grants.

So once such organizations were actually generating revenues in excess of costs, and were able to keep it, to what purpose were these unrestricted revenues applied? The most common uses of excess revenues were:

1. to enhance existing or provide new services;
2. to provide general support for the workforce development organization; and
3. to replace lost revenues from the public sector.

By far, organizations view fee-for-service revenues as a way to supplement government funding with more flexible dollars, to serve both the “eligible” population and the non-traditional customers, to expand on their service menu choices and, bottom line ~ to meet customer needs.

<b>FEES CHARGED BY FOUR DIFFERENT ONE-STOPs / SDAs</b>	
<b>Services which are normally paid by other organizations via third party payments:</b> <ul style="list-style-type: none"> <li>+ \$90 for 2 hours of resume preparation assistance</li> <li>+ \$70 for 1 hour of interview coaching</li> <li>+ \$50 for individual counseling sessions</li> <li>+ \$500 for customized job development with a guaranteed job offers</li> </ul>	<b>Services which are paid by non-publicly funded job seekers:</b> <ul style="list-style-type: none"> <li>+ \$175 - 8 hrs / \$350 - 16 hrs of various computer training classes (Lotus, Word Processing, etc.)</li> <li>+ \$60 - 4 hrs / \$90 - 6 hrs / \$180 - 12 hrs of various math related courses and various communication seminars</li> <li>+ \$90 for 6 hours of various personal growth seminars</li> </ul>
<b>Outplacement services paid by employers for non-publicly funded/enrolled employees:</b> <ul style="list-style-type: none"> <li>+ \$175 per person for individualized assessment and follow-up</li> <li>+ \$100 per person for job search related workshops &amp; detailed resume work</li> <li>+ \$85 per person for resume lab services</li> <li>+ \$100 per person for Center support services and access to computers, phones, labor market data, etc.</li> <li>+ \$1,000 per group for on-site customized workshops</li> </ul>	<b>Outplacement Services paid by employers based on a CHOICE of “packages”:</b> <ul style="list-style-type: none"> <li>+ 1 month of services* at \$1,500; 3 full months at \$2,000; 6 full months at \$3,500 for Management Personnel</li> <li>+ 3 day job search seminar for 20 participants: \$1,500</li> <li>+ 6 months of Growth Outplacement services* at \$600 per person</li> </ul> <p>* services include a complete package of various outplacement services; unlimited resumes, cover letters and postage - if an individual has NOT obtained a job, they will receive 75 copies of his/her resume. Senior and executive personnel receive unlimited services.</p>

<b>ONE NON-PROFIT SDA's EXAMPLE OF FEE-FOR-PROJECT PRICING STRATEGY</b>
-------------------------------------------------------------------------

1. Staff will meet with the client to assess what services are needed.
2. Project steps will be outlined having an estimate of hours needed to complete each step. A margin of at least 15% will be added to the estimate.
3. The Chief Financial Officer will establish an hourly rate for each of the services. The hourly rate will cover the cost of delivering the service.
4. The hourly rate will be multiplied by the estimate of hours to complete the project. This number will be multiplied by an overhead margin and a profit margin of at least 20%.
5. The client will be quoted a project fee on the services in the contract. Any additional services identified by the client after the contract is signed will be an added cost to the client. Before these services are delivered, an amendment to the contract will be completed.
6. Agreements to discount the project fee and/or the hourly rate will be approved by the Executive Director and/or the Chief Financial Officer before the proposal is presented.
7. Customers will be billed for reimbursable expenses including telephone, faxes, postage, travel, meals, etc. These fees will not be included in the project fee.

These pricing guidelines may be modified at any time upon approval by the Executive Director to bring the pricing structure in line with the going market rates.